



State of Utah

School and Institutional
TRUST LANDS ADMINISTRATION

Michael O. Leavitt
Governor

David T. Terry
Director

675 East 500 South, Suite 500
Salt Lake City, Utah 84102-2818
801-538-5100
801-355-0922 (Fax)
<http://www.trustlands.com>

June 21, 1999

Mr. Richard D. Pick, President & CEO
Canyon Fuel Company, LLC
6955 Union Park Center, Suite 540
Midvale, UT 84047

RE: Dugout Canyon Tract
Carbon County, Utah

Dear Mr. ^{Pick}Pick:

Pursuant to the Utah Schools and Land Exchange Act of 1998, Pub. L. No. 105-335, 112 Stat. 3139, the United States has granted unto the School and Institutional Trust Lands Administration (the "Trust Lands Administration") certain rights, title and interest in the following lands:

Dugout Canyon Tract

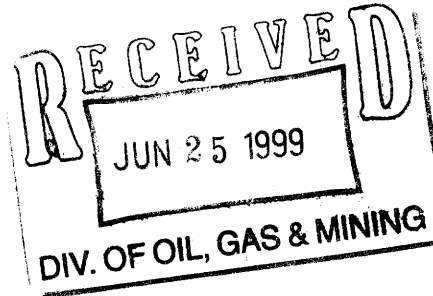
T 13 S, R 13 E, Salt Lake Meridian, Utah

Sec. 17, SW/4, SW/4SE/4;
Sec. 19, NE/4SE/4, S/2SE/4;
Sec. 20, All;
Sec. 21, SW/4NW/4, SW/4
Sec. 28, NW/4, N/2SW/4, SW/4SW/4
Sec. 29, All;
Sec. 30, E/2, E/2W/2
containing 2,560.00 acres, more or less.

The Trust Lands Administration has determined to offer the coal interests in the Dugout Canyon Tract for competitive leasing by simultaneous filing pursuant to existing statutory authority set forth at Utah Code Ann. § 53C-2-407(1)-(3). However, prior to leasing the Tract, the Trust Lands Administration must assemble specific geologic and economic information to determine the amount of coal reserve for the tract; and establish a pre-lease estimate of fair market value ("FMV") of the tract. This letter is a request to Canyon Fuel Company, LLC to provide the Trust Lands Administration information that will be useful in this effort. All information that you might provide will be used specifically for this appraisal and would be maintained strictly confidential. The information needed includes:

for file - Pam
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Mr. Richard D. Pick
June 21, 1999
Page Two

Comparative Sales Information

The appraisal will consider this approach using the latest coal sales information. Any information that you believe would be useful for evaluation would be greatly appreciated.

Income Approach to Valuation

A primary approach to valuing the Dugout Canyon Tract will be the income approach. It is necessary to obtain the best information possible in this effort and company input is essential to the process. In order to determine FMV for the tract through the income approach, models will be built based upon operations with and without the Dugout Canyon Tract. The key factors that will be entered into the model and which we need your input on include:

Recoverable Coal Reserves

Without the Tract
With the Tract

Size of the Operation (annual production)

Present
Future
Without the Tract
With the Tract

Capital Costs:

Dollars to Present
Future (broken down by item, cost, year to be purchased)
Without the Tract
With the Tract

Mine Operating Costs (per ton basis)

Direct Operating Costs
Other Costs
Rec. Tax
Black Lung Fee
Local Property Tax
All Royalty Requirements

Mr. Richard D. Pick
June 21, 1999
Page Three

Coal Prices
Existing
Trends
Future

Any information on recent coal contracts you can share

Existing and anticipated trucking costs

Any other information you believe to be relevant

Thank you for your assistance with this information, accurate and reliable information is essential to a good evaluation. As we have discussed, a meeting is scheduled on July 7, 1999 to review any information you can provide us. I expect representatives of our coal sale panel which includes, the Trust Lands Administration, Bureau of Land Management, Division of Oil, Gas and Mining, and NorWest Mine Services, Inc. (as consultant to the Trust Lands Administration) will be available. In the mean time, if you have any questions please contact me.

Best Regards,
School and Institutional Trust Lands Administration


James D. Cooper
Assistant Director

cc: David T. Terry
John Blake
Conrad B. Houser, Norwest Mine Services, Inc.
Doug Koza, BLM
Mary Ann Wright, DOGM